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YOUYUAN INTERNATIONAL HOLDINGS LIMITED

優源國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2268)

DISCLOSEABLE AND CONNECTED TRANSACTION PROPOSED ACQUISITION OF EQUITY INTEREST IN XIN WING

THE PROPOSED ACQUISITION

Reference is made to the announcement of the Company dated 16 July 2015. The Board is pleased to announce that, on 28 October 2015 (after trading hours of the Stock Exchange), Xi Yuan, an wholly-owned subsidiary of the Company, Cathay Fund, the Target Group and Ms. Ke entered into the Share Subscription Agreement, pursuant to which (i) Xi Yuan conditionally agreed to purchase 4,100 Class B Ordinary Shares, representing 41.0% of the equity interest of Xin Wing; and (ii) Cathay Fund conditionally agreed to purchase 2,000 Class B Ordinary Shares, representing 20.0% of the equity interest of Xin Wing, in both cases, as enlarged by the subscription of the Class B Ordinary Shares by Xi Yuan and Cathay Fund pursuant to the Share Subscription Agreement.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios exceeds 5% but all of the applicable percentage ratios do not exceed 25%, the Proposed Acquisition and the transactions contemplated under the Share Subscription Agreement constitute discloseable transactions for the Company and are subject to the reporting and announcement requirements as set out in Chapter 14 of the Listing Rules.

As Ms. Ke is the daughter and thus an associate of Mr. Ke Wentuo, the Chairman, an executive Director and controlling Shareholder of the Company, Ms. Ke is a connected person of the Company and therefore the Proposed Acquisition and the transactions contemplated under the Share Subscription Agreement also constitute connected transactions and are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

The Independent Board Committee, comprising all of the independent non-executive Directors, will be established by the Company to advise the Independent Shareholders on the Proposed Acquisition.

The Company has appointed Amasse Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activities under the SFO, as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Acquisition.

The EGM will be convened and held for the Shareholders to consider and if thought fit, approve the Proposed Acquisition, the Share Subscription Agreement and the transactions contemplated thereunder. At the EGM, Mr. Ke Wentuo, Cathay Special Paper and their respective associates shall abstain from voting pursuant to Rule 14A.36 of the Listing Rules.

A circular containing, among others, (i) further details of the Proposed Acquisition and the Share Subscription Agreement and the transaction contemplated thereunder; (ii) the recommendation from the Independent Board Committee in respect of the Proposed Acquisition; (iii) the advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders regarding the Proposed Acquisition; (iv) the notice convening the EGM, is currently expected to be despatched to the Shareholders on or about 18 November 2015.

As completion of the Proposed Acquisition is subject to fulfillment of certain conditions precedent and may or may not proceed, Shareholders and potential investors are urged to exercise caution when dealing in the Shares.

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SHARE SUBSCRIPTION AGREEMENT

Set out below are the principal terms of the Share Subscription Agreement:

Date:

28 October 2015

Parties:

- (1) Xi Yuan;
- (2) Cathay Fund;
- (3) Target Group; and
- (4) Ms. Ke.

Interest to be acquired:

Pursuant to the Share Subscription Agreement, (i) Xi Yuan, an wholly-owned subsidiary of the Company conditionally agreed to purchase 4,100 Class B Ordinary Shares, representing 41.0% of the equity interest of Xin Wing; and (ii) Cathay Fund conditionally agreed to purchase 2,000 Class B Ordinary Shares, representing 20.0% of the equity interest of Xin Wing, in both cases, as enlarged by the subscription of the Class B Ordinary shares by Xi Yuan and Cathay Fund.

Upon Completion and on a fully diluted and as-converted basis, Xin Wing will be held as to 41.0%, 20.0% and 39.0% by Xi Yuan, Cathay Fund and Ms. Ke, respectively, and the financial results of Xin Wing will not be consolidated into the financial results of the Group.

Consideration:

The maximum total consideration payable by each of Xi Yuan and Cathay Fund shall be RMB533.0 million and RMB260.0 million, respectively, which comprises the Initial Subscription Price and the Supplemental Subscription Price and shall be paid in accordance with the terms and conditions set forth in the Share Subscription Agreement and as set out in the section below. The consideration has been arrived at on an arm's length basis under normal commercial terms pursuant to negotiations between the parties after taking into account, among others, the unaudited net asset values of the Target Group as at 30 June 2015, the unaudited net profit after taxation for the year ended 31 December 2014 of the Target Group and the Performance Benchmark by the Target Group. The consideration payable by Xi Yuan will be funded by internal resources and borrowings from financial institutions.

Performance Adjustments:

The equity percentage held by each of Xi Yuan and Cathay Fund in Xin Wing shall be adjusted as set out below:

(i) Adjustment in the event that the Actual Performance of Xin Wing is less than the Performance Benchmark and more than zero

On each Adjustment Date, each of Xi Yuan and Cathay Fund shall be entitled to receive from Xin Wing such number of additional Class B Ordinary Shares that when aggregated with the number of shares of Xin Wing held by Xi Yuan or Cathay Fund (as applicable) on the relevant date equal to an equity percentage of “P” (on a fully-diluted and as-converted basis) for Xi Yuan or Cathay Fund (as applicable):

$P = (CP * \text{Performance Benchmark for the relevant Financial Year}) / \text{Actual Performance for such Financial Year};$

whereby,

“CP” equals to the percentage equity interest of Xi Yuan or Cathay Fund (as applicable) in Xin Wing on a fully-diluted and as converted basis immediately after the Completion Date,

provided that, on the Second Adjustment Date, if the Actual Performance for the Second Financial Year is less than the Second Performance Benchmark, and where the shortfall is less than 10% of the Gross Second Performance Benchmark, the Gross Third Performance Benchmark shall be adjusted by aggregating (A) such shortfall, i.e., the difference between the Gross Second Performance Benchmark and the Actual Performance for the Second Financial Year and (B) RMB250 million (the “**Adjusted Gross Third Performance Benchmark**”). For the avoidance of doubt, in the event the Adjusted Gross Third Performance Benchmark is applicable, the adjustment will be in respect of the Adjusted Gross Third Performance Benchmark and no adjustment will be made in respect the Second Performance Benchmark.

(ii) Adjustment in the event that the Actual Performance for the applicable Financial Year is equal to or less than zero

On each Adjustment Date, each of Xi Yuan and Cathay Fund shall be entitled to receive from Xin Wing such number of additional Class B Ordinary Shares that when aggregated with the number of shares of Xin Wing held by Xi Yuan or Cathay Fund (as applicable) on the relevant date equal to an equity percentage of “P*” (on a fully-diluted and as-converted basis) for Xi Yuan or Cathay Fund (as applicable):

$$P^* = (\text{Percentage interest of Xin Wing held by Xi Yuan or Cathay Fund (as applicable) immediately prior to the applicable Adjustment Date} / (\text{Aggregate percentage interest held by Xi Yuan and Cathay Fund immediately prior to the relevant Adjustment Date} + 1\%)) \times 100$$

The parameters of the Performance Adjustment mechanism are set out below:

Financial Year	Performance Benchmark	Actual Performance	Adjustment Date
12 months ended 31 December 2014 (“ First Financial Year ”)	RMB120 million less the audited loss incurred by Xin Wing as a result of the acquisition of Taisheng expressed as a positive number (the “ Gross First Performance Benchmark ”) divided by the total number of the shares of Xin Wing outstanding on a fully-diluted and as converted basis immediately following the Completion Date (the “ First Performance Benchmark ”)	the consolidated net profit of Xin Wing for the 12 months ended 31 December 2014 on a fully-diluted and as-converted per share basis immediately prior to the relevant Adjustment Date	“ First Adjustment Date ” means the date for performance adjustment based on the audited financial statements of Xin Wing for the First Financial Year. The audited financial statements of Xin Wing for the First Financial Year shall be received by Xi Yuan and Cathay Fund no later than 30 June 2016, and the resulting adjustment shall take effect within 30 calendar days of the relevant audited financial statements being received by Xi Yuan and Cathay Fund

Financial Year	Performance Benchmark	Actual Performance	Adjustment Date
12 months ended 31 December 2015 (“ Second Financial Year ”)	RMB200 million (the “ Gross Second Performance Benchmark ”) divided by the total number of the shares of Xin Wing outstanding on a fully-diluted and as converted basis immediately following the Completion Date (the “ Second Performance Benchmark ”), or RMB180 million divided by the total number of the shares of Xin Wing outstanding on a fully-diluted and as converted basis immediately following the Completion Date (“ Alternate Second Performance Benchmark ”)	the consolidated net profit of Xin Wing for the 12 months ended 31 December 2015 on a fully-diluted and as-converted per share basis immediately prior to the relevant Adjustment Date	“ Second Adjustment Date ” shall equal to the date for performance adjustment based on (i) the audited financial statements of Xin Wing for the Second Financial Year or (ii) in the event the Adjusted Gross Third Performance Benchmark applies as set out above, the audited financial statements of Xin Wing for the Third Financial Year. The audited financial statements of Xin Wing for the Second Financial Year shall be received by Xi Yuan and Cathay Fund no later than 30 June 2016, while the audited financial statements of Xin Wing for the Third Financial Year shall be received by Xi Yuan and Cathay Fund no later than 30 April 2017, and the resulting adjustment shall take effect within 30 calendar days of the relevant audited financial statements of Xin Wing being received by Xi Yuan and Cathay Fund
12 months ended 31 December 2016 (“ Third Financial Year ”)	RMB250 million (the “ Gross Third Performance Benchmark ”) or the Adjusted Gross Third Performance Benchmark, divided by the total number of the shares of Xin Wing outstanding on a fully-diluted and as converted basis immediately following the Completion Date (the “ Third Performance Benchmark ”)	the consolidated net profit of Xin Wing for the 12 months ended 31 December 2016 on a fully-diluted and as-converted per share basis immediately prior to the relevant Adjustment Date	“ Third Adjustment Date ” means the date for performance adjustment based on the audited financial statements of Xin Wing for the Third Financial Year. The audited financial statements of Xin Wing for the Third Financial Year shall be received by Xi Yuan and Cathay Fund no later than 30 April 2017, and the resulting adjustment shall take effect within 30 calendar days of the relevant audited financial statements of Xin Wing being received by Xi Yuan and Cathay Fund
12 months ended 31 December 2017 (“ Fourth Financial Year ”)	RMB280 million (the “ Gross Fourth Performance Benchmark ”) divided by the total number of the shares of Xin Wing outstanding on a fully-diluted and as converted basis immediately following the Completion Date (the “ Fourth Performance Benchmark ”)	the consolidated net profit of Xin Wing for the 12 months ended 31 December 2017 on a fully-diluted and as-converted per share basis immediately prior to the relevant Adjustment Date	“ Fourth Adjustment Date ” means the date for performance adjustment based on the audited financial statements of Xin Wing for the Fourth Financial Year. The audited financial statements of Xin Wing for the Fourth Financial Year shall be received by Xi Yuan and Cathay Fund no later than 30 April 2018, and the resulting adjustment shall take effect within 30 calendar days of the relevant audited financial statements of Xin Wing being received by Xi Yuan and Cathay Fund

Conditions and methods of payment of consideration:

The consideration payable by each of Xi Yuan and Cathay Fund comprises the Initial Subscription Price and the Supplemental Subscription Price, which shall be calculated and paid according to the conditions as set forth below:

Initial Subscription Price

The Initial Subscription Price shall be RMB266.5 million and RMB130.0 million payable in cash by Xi Yuan and Cathay Fund, respectively, on the Completion Date.

Supplemental Subscription Price

Each of Xi Yuan and Cathay Fund shall, severally but not jointly, pay to Xin Wing, if applicable, its respective Supplemental Subscription Price, in immediately available funds to the designated account by wire transfer or other payment method in immediately available funds or cleared funds mutually agreed to between the Xin Wing and each of Xi Yuan and Cathay Fund promptly after (i) the Company's full performance of its obligations relating to performance adjustment (but in no event prior to the Second Adjustment Date) and (ii) receipt of the audited financial statements of Xin Wing for the Second Financial Year by Xi Yuan and Cathay Fund. For the avoidance of doubt, except as otherwise agreed in writing amongst Ms. Ke, Xin Wing, Xi Yuan and Cathay Fund, each of Xi Yuan and Cathay Fund shall pay its respective Supplemental Subscription Price on a date that is no earlier than the end of the eighteen months period after Completion Date. The Supplemental Subscription Price shall be calculated as follows:

- (a) If the Adjusted P for the Second Financial Year is equal to or larger than zero (0) but equal to or smaller than Adjusted P for Alternate Second Performance Benchmark, then the Supplemental Subscription Price shall be RMB266.5 million for Xi Yuan and RMB130.0 million for Cathay Fund, respectively, whereby:

Adjusted P for Alternate Second Performance Benchmark for each of Xi Yuan and Cathay Fund = ((CP for Xi Yuan or Cathay Fund (as applicable) * Second Performance Benchmark) / Alternate Second Performance Benchmark) minus CP for Xi Yuan or Cathay Fund (as applicable),

whereby "**Adjusted P**" for a relevant Financial Year equals to P of the relevant Financial Year minus CP.

- (b) If the Adjusted P for the Second Financial Year for Xi Yuan or Cathay Fund (as applicable) is larger than Adjusted P for Alternate Second Performance Benchmark for Xi Yuan or Cathay Fund (as applicable) but less than or equal to 50% of CP for Xi Yuan or Cathay Fund (as applicable), the Supplemental Subscription Price shall be determined according to the formula below:

Supplemental Subscription Price for Xi Yuan = RMB266.5 million minus (Adjusted P for Xi Yuan for the Second Financial Year * Adjusted Valuation for Xi Yuan); and

Supplemental Subscription Price for Cathay Fund = RMB130.0 million minus (Adjusted P for Cathay Fund for the Second Financial Year * Adjusted Valuation for Cathay Fund),

whereby,

“**Adjusted Valuation for Xi Yuan**” equals to the maximum purchase price of RMB533.0 million payable by Xi Yuan divided by P for Xi Yuan; and

“**Adjusted Valuation for Cathay**” equals to the maximum purchase price of RMB260.0 million payable by Cathay Fund divided by P for Cathay Fund.

- (c) For the avoidance of doubt, without prejudice to the determination of the Supplemental Subscription Price as set out in (a) and (b) above, Xi Yuan and Cathay Fund (as applicable) shall be entitled to receive from Xin Wing such number of additional Class B Ordinary Shares as calculated pursuant to the clauses relating to performance adjustment as set out above.
- (d) For the avoidance of doubt, the Supplemental Subscription Price for Xi Yuan and Cathay Fund should be no more than RMB266.5 million and RMB130.0 million, respectively.

Conditions Precedent:

Pursuant to the Share Subscription Agreement, the Completion shall be subject to fulfillment of, among other things, the following conditions (subject to any waiver in written form by Xi Yuan or Cathay Fund, on its own behalf, in its absolute discretion of any or all of the conditions):

- (a) the shareholders agreement, in a form acceptable to Xi Yuan and Cathay Fund, having been duly executed (but undated) and delivered by the parties to the shareholders agreement;

- (b) the restated memorandum and articles of association of Xin Wing, in a form acceptable to Xi Yuan and Cathay Fund, having been duly adopted by the resolution of the sole shareholder of Xin Wing and filed with the Registry of Corporate Affairs in British Virgin Islands and a certified copy of such an amended and restated memorandum and articles of association of Xin Wing (as registered) having been delivered to Xi Yuan and Cathay Fund;
- (c) the amended and restated charter documents of the Target's PRC Subsidiaries in agreed forms and executed copies of which have been delivered to Xi Yuan and Cathay Fund;
- (d) the amended and restated memorandum and articles of association of Target's HK Subsidiary in the agreed form filed and registered with the Companies Registry in Hong Kong and a certified copy of which has been delivered to Xi Yuan and Cathay Fund;
- (e) all the warranties being true and correct and complete with respect to the subject covered therein when made, and remaining true and correct as of the Completion Date with the same force and effect as if they had been made on and as of such date;
- (f) each of Xi Yuan and Cathay Fund and its counsel, accountants, and industry experts having conducted legal, business, financial, and technical due diligence investigations against the Target Group, the results of which shall be satisfactory to Xi Yuan and Cathay Fund in its sole and absolute discretion;
- (g) a business plan and the annual budget, each in a form reasonably satisfactory to Xi Yuan and Cathay Fund, having been delivered to Xi Yuan and Cathay Fund;
- (h) each of Xi Yuan and Cathay Fund having secured all approvals required to enter into and give effect to the Share Subscription Agreement, including, where relevant, any approval by the Shareholders pursuant to Chapters 14 and 14A of the Listing Rules;
- (i) all consents required under the laws of the British Virgin Islands, Hong Kong and the PRC, and required under any material contract, or the entering into and performance of the Share Subscription Agreement, the shareholders agreement and other ancillary agreements and the implementation of the transactions herein and therein contemplated having been obtained and remaining valid and effective as of the Completion;

- (j) each of Xi Yuan and Cathay Fund having received evidence to their satisfaction that (i) the Target’s HK Subsidiary and Mr. Huang Mingchun (“**Mr. Huang**”) have executed the relevant agreements for the Target’s HK Subsidiary to purchase all of the registered capital of Senry held by Mr. Huang (the “**Senry Equity Transfer**”), which as of the date of the Share Subscription Agreement is 3.0%, and (ii) that each of the agreements relating to Senry Equity Transfer (the “**Senry Equity Transfer Agreements**”) has been duly authorized, executed, and delivered by way of applicable corporate action on the part of each party to such agreement, its officers, directors and shareholders as necessary for the authorization, execution, and delivery of such agreement, and that each of the Senry Equity Transfer Agreements constitutes valid and legally binding obligation of each party thereto, enforceable against such party in accordance with its terms;
- (k) each of the key employees of each company of the Target Group shall have entered into an employment agreement with the relevant company of the Target Group substantially in the form and substance satisfactory to Xi Yuan and Cathay Fund;
- (l) the Target’s HK Subsidiary having set up a bank account in Hong Kong, which, effective at the Completion, shall be operated by joint signatories: a representative of Xin Wing, a representative of Xi Yuan, and a representative of Cathay Fund (the “**Joint Signatories**”), from which any payment for an amount more than US\$50,000 shall be jointly approved and signed by all of the Joint Signatories;
- (m) each company of the Target Group having complied with the internal control standards (or to the extent reviewed and approved by each of Xi Yuan and Cathay Fund, the existing internal control standards of the companies of the Target Group) and provided access to all records of the Target Group to each of Xi Yuan and Cathay Fund upon reasonable notice, and evidence that each company of the Target Group has adopted internal controls that satisfy the internal control standards, as of the later of one month after the Completion Date, and the respective date of establishment of each company of the Target Group, having been presented to each of Xi Yuan and Cathay Fund to its reasonable satisfaction;
- (n) there having been no event since 31 December 2013 that has resulted in a material adverse effect; and

- (o) Ms. Ke shall have provided evidence satisfactory to Xi Yuan and Cathay Fund (as applicable) that she has properly completed the registration of her equity interest in Xin Wing in accordance with the requirements of Notice on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents Engaging in Overseas Financing and Investing through Round-Trip Investment via Special Purpose Companies (i.e. SAFE Circular 37) or the Circular Regarding Foreign Exchange Control For Fundraising And Offshore-Domestic Investments By Domestic Residents Through Special Purpose Vehicles (i.e. SAFE Circular 75);
- (p) the Target Group and Ms. Ke having performed and complied with all agreements, obligations and conditions contained in the Share Subscription Agreement and ancillary agreements that are required to be performed or complied with by them on or before the Completion.

As at the date of this announcement, none of the conditions above have been fulfilled.

Completion:

Completion shall take place on the Completion Date, which shall be within ten (10) business days of satisfaction or waiver of the conditions precedent as set out above, or at such other time and date as mutually agreed to by the parties. Neither Xi Yuan or Cathay Fund is obliged to complete the Share Subscription Agreement unless (a) Ms. Ke and the Target Group comply with all of their obligations and all the conditions precedent are complied with (or waived by Xi Yuan or Cathay Fund (as applicable) in its absolute discretion); and (b) Xi Yuan (in Cathay Fund's perspective) or Cathay Fund (in Xi Yuan's perspective) complies with all of its respective obligations relating to Completion as set forth under the Share Subscription Agreement.

Termination:

The Share Subscription Agreement may be terminated and the transaction abandoned at any time prior to the Completion Date:

- (a) by mutual written consent of the Xin Wing, Ms. Ke, Xi Yuan and Cathay Fund;
- (b) by Xin Wing with respect to its rights and obligations to Xi Yuan or Cathay Fund, in the event that Xi Yuan or Cathay Fund fails to comply with its obligations at Completion, provided that Xin Wing is not then in material breach of its obligations under the Share Subscription Agreement, in which case Xin Wing is excused from its obligations to perform under the clause of the Share Subscription Agreement relating to Completion; or

- (c) by Xi Yuan or Cathay Fund with respect to its rights and obligations to the Target Group and Ms. Ke, in the event that Xin Wing, the Target Group or Ms. Ke fails to comply with its obligations set out in the clause of the Share Subscription Agreement relating to Completion, provided that Xi Yuan or Cathay Fund is not then in material breach of its obligations under the Share Subscription Agreement, in which case Xi Yuan or Cathay Fund is excused from its obligations to perform under the clause of the Share Subscription Agreement relating to Completion; or
- (d) by Xi Yuan or Cathay Fund (as applicable) with respect to its rights and obligations to Ms. Ke and the Target Group, in the event that Xi Yuan (in Cathay Fund's perspective) or Cathay Fund (in Xi Yuan's perspective) fails to comply with its obligation relating to Completion as set out under the Share Subscription Agreement, in which case Xi Yuan or Cathay Fund (as applicable) is excused from its obligations to perform under the clause relating to Completion in the Share Subscription Agreement.

If the Share Subscription Agreement is terminated pursuant to the provisions as set out above, the Share Subscription Agreement shall become void and have no further effect; neither party to the Share Subscription Agreement shall have any claim under the Share Subscription Agreement or any nature against another party to the Share Subscription Agreement, except in respect of any rights and liabilities under any of the provisions related to termination, confidentiality, notices and other communication, governing law and dispute resolutions which shall survive any expiration or termination of the Share Subscription Agreement.

FINANCIAL INFORMATION ABOUT XIN WING

Set forth below is the net profit (before and after tax) of Xin Wing for the years ended 31 December 2013 and 2014 according to the unaudited consolidated financial statements of Xin Wing:

	For the year ended 31 December 2013	For the year ended 31 December 2014
	<i>RMB million</i>	<i>RMB million</i>
Net profit before taxation	89.0	144.7
Net profit after taxation	70.9	120.6

As at 30 June 2015, the consolidated total net assets of Xin Wing was approximately RMB254.3 million according to the unaudited consolidated management accounts of Xin Wing.

REASONS FOR AND BENEFITS OF THE PROPOSED ACQUISITION

The Group is principally engaged in the business of manufacturing and wholesale distribution of wrapping tissue paper, copy paper and other specialty paper products. In 2014, the Group diversified its business and ventured into the manufacturing of high quality wall paper backing paper, leveraging its expertise in specialty paper manufacturing and capitalizing on the growing demand for premium home refurbishment products. Customers of the Group's high quality wall paper backing paper are primarily manufacturers of high quality wall paper products who the Group believes have been seeking local suppliers for sourcing of high quality wall paper backing paper, substituting overseas suppliers.

Our Directors believe that the Proposed Acquisition allows the Group to further leverage its experience and expertise in manufacturing of high quality wall paper backing paper to expand the product offerings of the Group to cover high quality wall paper finished products, thus enabling the Group to move up its market position in the paper industry value chain. The Proposed Acquisition represents the Group's efforts in gradually expanding its product portfolio, which at present predominantly comprises industrial products and the target customers of which are other manufacturers, to cover consumer end-products targeting at end-users.

The Directors (excluding the independent non-executive Directors) are of the view that the terms and conditions for entering into the Share Subscription Agreement are fair and reasonable, and are in the interests of the Company and Shareholders as a whole.

BACKGROUND INFORMATION OF THE GROUP, CATHAY FUND, THE TARGET GROUP AND MS. KE

The Group is principally engaged in the business of manufacturing and trading of wrapping tissue paper, copy paper and other specialty paper products.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Cathay Fund is a private equity fund and a limited partnership which is principally engaged in the business of investment holding with direct investment in the PRC and managed by the general partner named Cathay Capital III Master GP. Ltd. As of the date of this announcement, Cathay Special Paper, a Shareholder holding approximately 8.58% of the issued share capital of the

Company, is 100% held by Cathay Capital Holdings II, L.P., which is managed its general partner, Cathay Master GP. Ltd. The ultimate beneficial owners of Cathay Master GP. Ltd are the same as the ultimate beneficial owners of Cathay Capital III Master GP. Ltd, the general partner of Cathay Fund.

The Target Group is principally engaged in the manufacturing and distribution of wallpaper in PRC. As at the date of this announcement, it is controlled by Ms. Ke.

Ms. Ke is the daughter of Mr. Ke Wentuo, the Chairman, executive Director and controlling Shareholder of the Company.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios exceeds 5% but all of the applicable percentage ratios do not exceed 25%, the Proposed Acquisition and the transaction contemplated under the Share Subscription Agreement constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements as set out in Chapter 14 of the Listing Rules.

As Ms. Ke is the daughter and thus an associate of Mr. Ke Wentuo, the Chairman, an executive Director and controlling Shareholder of the Company, Ms. Ke is a connected person of the Company and therefore the Proposed Acquisition and the transaction contemplated under the Share Subscription Agreement also constitutes a connected transaction and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

The Independent Board Committee, comprising all of the independent non-executive Directors, will be established by the Company to advise the Independent Shareholders on the Proposed Acquisition.

The Company has appointed Amasse Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activities under the SFO, as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Acquisition.

The EGM will be convened and held for the Shareholders to consider and if thought fit, approve the Proposed Acquisition, the Share Subscription Agreement and the transactions contemplated thereunder. At the EGM, Mr. Ke Wentuo, Cathay Special Paper and their respective associates shall abstain from voting pursuant to Rule 14A.36 of the Listing Rules.

A circular containing, among others, (i) further details of the Proposed Acquisition and the Share Subscription Agreement and the transaction contemplated thereunder; (ii) the recommendation from the Independent Board Committee in respect of the Proposed Acquisition; (iii) the advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders regarding the Proposed Acquisition; (iv) the notice convening the EGM, is currently expected to be despatched to the Shareholders on or before 18 November 2015.

As completion of the Proposed Acquisition is subject to fulfillment of certain conditions precedent and may or may not proceed, Shareholders and potential investors are urged to exercise caution when dealing in the Shares.

DEFINITIONS

Unless the context requires otherwise, the following expressions shall have the following meanings in this announcement:

“Actual Performance”	the consolidated net profit of Xin Wing for the relevant Financial Year on a fully diluted and as-converted per share basis immediately prior to the relevant Adjustment Date
“Adjustment Date”	the First Adjustment Date, the Second Adjustment Date, the Third Adjustment Date and the Fourth Adjustment Date
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Cathay Fund”	Cathay Capital Holdings III, L.P., an exempted limited partnership formed in the Cayman Islands
“Cathay Special Paper”	Cathay Special Paper Limited, a Shareholder holding approximately 8.58% of the issued share capital of the Company and wholly-owned by Cathay Capital Holdings II, L.P.
“Class B Ordinary Shares”	class B ordinary shares of US\$1.00 each in the issued share capital of Xin Wing

“Company”	Youyuan International Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the Stock Exchange
“Completion”	completion of the Proposed Acquisition
“Completion Date”	date of the Completion
“connected person”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the Director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held for the Shareholders to consider and, if thought fit, approve the Proposed Acquisition, the Share Subscription Agreement and the transactions contemplated thereunder
“Financial Year”	the First Financial Year, the Second Financial Year, the Third Financial Year and the Fourth Financial Year (as applicable)
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board, comprising all of the independent non-executive Directors, to be established by the Company to advise the Independent Shareholders on the Proposed Acquisition
“independent third party”	person or company who or which is not a connected person of the Company
“Initial Subscription Price”	the initial subscription price payable by Xi Yuan and Cathay Fund
“Independent Shareholders”	Shareholders other than those who are required under the Listing Rules to abstain from voting at the EGM
“Listing Rules”	the Rules Governing the Listing of Securities of the Stock Exchange

“Ms. Ke”	Ms. Ke Jinzhen (柯金珍), the daughter of Mr. Ke Wentuo, the Chairman, executive Director and controlling Shareholder of the Company and thus a connected person of the Company
“Performance Benchmark”	the First Performance Benchmark, the Second Performance Benchmark, the Third Performance Benchmark and the Fourth Performance Benchmark
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Proposed Acquisition”	the proposed acquisition of 41.0% of the enlarged issued share capital of Xin Wing by Xi Yuan by way of subscription of 4,100 Class B Ordinary Shares
“RMB”	Renminbi, the lawful currency of PRC
“Senry”	Fujian Sunreal Pro-environmental Wallpaper Co., Ltd. (福建聖莉雅環保壁紙有限公司), a limited liability company incorporated under the laws of PRC and owned as to 97.0% and 3.0% by Target’s HK Subsidiary and Mr. Huang Mingchun (黃明淳), an independent third party of the Company
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary shares of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Share Subscription Agreement”	the share subscription agreement entered into by and among Xi Yuan, Cathay Fund, the Target Group and Ms. Ke dated 28 October 2015
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Subscription Price”	supplemental subscription price payable by Xi Yuan and Cathay Fund, the amount of which shall be no more than RMB266.5 million and RMB130.0 million respectively

“Taisheng”	Fujian Taisheng Wallpaper Co., Ltd.* (福建泰聖壁紙有限公司), a limited liability company incorporated under the laws of PRC and wholly-owned by Senry
“Target Group”	Xin Wing, the Target’s PRC Subsidiaries and the Target’s HK Subsidiary
“Target’s HK Subsidiary”	Yi Yuan (Hong Kong) Holdings Limited, a limited liability company incorporated under the laws of Hong Kong and wholly-owned by Xin Wing
“Target’s PRC Subsidiaries”	Senry and Taisheng
“US\$”	United States Dollars, the lawful currency of the United States
“Xin Wing”	Xin Wing Enterprises Limited, a limited liability company incorporated under the laws of British Virgin Islands and wholly-owned by Ms. Ke as of the date of this announcement
“Xi Yuan”	Xi Yuan Paper Limited, a limited liability company incorporated under the laws of British Virgin Islands and an wholly-owned subsidiary of the Company
“%”	per cent

By Order of the Board
Youyuan International Holdings Limited
KE Wentuo
Chairman

Hong Kong, 28 October 2015

As at the date of this announcement, the executive Directors are Mr. Ke Wentuo, Mr. Ke Jixiong, Mr. Cao Xu and Mr. Zhang Guoduan and the independent non-executive Directors are Prof. Zhang Daopei, Prof. Chen Lihui and Mr. Chow Kwok Wai.